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ORIGINAL PAPER

Is Corporate Tax Aggressiveness a Reputation Threat? Corporate Accountability, Corporate Social Responsibility, and Corporate Tax Behavior

Lisa Baudot[1] · Joseph A. Johnson[1] · Anna Roberts[2] · Robin W. Roberts[1]

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Abstract
In this paper, we consider the relationships among corporate accountability, reputation, and tax behavior as a corporate social responsibility issue. As part of our investigation, we provide empirical examples of corporate reputation and corporate tax behaviors using a sample of large, U.S.-based multinational companies. In addition, we utilize corporate tax controversies to illustrate possibilities for aggressive corporate tax behaviors of high-profile multinationals to become a reputation threat. Finally, we consider whether reputation serves as an accountability mechanism for corporate tax behaviors among other mechanisms for holding firms accountable for corporate tax behaviors. Our conceptual work points to a complicated relationship among shareholder, stakeholder, and civic responsibilities in the development and execution of firm's corporate tax strategies. Building on those insights, our empirical illustration considers corporate reputation data alongside data which reflects corporate tax behavior. Based on this work, we find no clear trend or pattern indicating that reputation is associated with or affected by certain types of corporate tax behaviors. That is, our exploratory empirical illustration suggests that corporate tax behavior does not produce broad reputational consequences that would motivate a change in firm behavior. Drawing from celebrity and strategic silence research, we then suggest that reputation may not be a well-functioning mechanism for holding corporations to account for contributing their fair share of the resources used by government for the benefit of society and offer-related theoretical insights.

Keywords Corporate accountability · Corporate tax behavior · Corporate reputation

Introduction

Over the past decade, corporate tax behavior has become a matter of significant interest. Government authorities have expressed concern about how and where federal tax revenue is generated, and that all parties, including corporations, pay their "fair share" (McGee 2006). The debate around firms' use of aggressive tax strategies to avoid paying a fair share has been particularly fierce outside of the United States. Indeed, multinational firms' tax behavior has been questioned before the courts, with the tax arrangements of Amazon, Google, and Starbucks each facing criticism and potential changes to their tax obligations.[1] These criticisms were driven largely by media reports which led, in the case of Starbucks, to the threat of a customer boycott.[2] Thus, corporate tax behavior seems to be a reputational issue.

Reputation is presumably an accountability mechanism because (1) constituents have significant control over it as a social evaluation (Lange et al. 2011), and (2) positive (negative) reputational influences produce economic rewards

✉ Robin W. Roberts
rroberts@ucf.edu

Lisa Baudot
lisa.baudot@ucf.edu

Joseph A. Johnson
joseph.johnson@ucf.edu

Anna Roberts
annaroberts@psu.edu

1 Kenneth G. Dixon School of Accounting, University of Central Florida, Orlando, FL 32816, USA

2 Smeal College of Business, The Pennsylvania State University, University Park, PA 16802, USA

[1] https://www.bbc.com/news/magazine-20560359, accessed May 6, 2018.

[2] https://www.theguardian.com/business/2012/dec/08/starbucks-uk-stores-protests-tax, accessed May 6, 2018.

(sanctions) for the firm that are sufficient to motivate socially desirable behavior (Brammer and Pavelin 2006; Cable and Graham 2000; Staw and Epstein 2000). Perspectives on corporate accountability have extended traditional debates on social responsibility to broader stakeholders (Freeman 1984) to include civic accountability to the public/citizens of the countries in which firms operate, specifically through taxation (Christensen and Murphy 2004; Russell and Brock 2016; Payne and Raiborn 2018). Doing so implies that firms are expected to refrain from engaging in overly aggressive tax avoidance behaviors and, thus, to pay their fair share of taxes to contribute to society as part of their assumption of corporate social responsibility. Firms implementing aggressive tax avoidance strategies may suffer reputational effects from the social evaluations by these broader stakeholders when it appears that they are shirking that responsibility.

In this study, we consider the relationships between corporate accountability, reputation, and tax behavior as a corporate social responsibility (CSR) issue. As part of our investigation, we used a sample of large, multinational corporations to provide exploratory empirical evidence of the relationship between corporate reputation and corporate tax behaviors. In addition, we utilized corporate tax controversies to illustrate possibilities for aggressive corporate tax behaviors of high-profile multinationals to become reputation threats. Finally, we considered mechanisms for holding firms accountable for corporate tax behaviors which may influence the link between corporate tax behavior and reputation.

Our study points to a complicated relationship between shareholder, stakeholder, and civic responsibilities in the development and execution of firms' corporate tax strategies. Based on our conceptual and empirical work, where we considered corporate reputation data alongside data which reflects corporate tax behavior, we find no clear trend or pattern indicating that reputation is associated with or affected by certain types of corporate tax behaviors. That is, our exploratory work suggests that corporate tax behavior does not produce broad reputational consequences that would motivate a change in firm behavior. However, drawing from research on corporate celebrity (Rindova et al. 2006) and strategic silence (Bitektine and Haack 2015; Clemente and Roulet 2015; Carlos and Lewis 2018), we suggest that this disconnect may be explained by the idea that overconforming celebrity firms (i.e., visible market leaders) may *not* be vulnerable to reputation threats associated with the use of aggressive tax strategies. Our work therefore suggests that reputation is not a well-functioning mechanism for holding corporations to account for contributing their fair share of the resources used by government for the benefit of society.

We posit some explanations for why reputation might not be well-functioning as an accountability mechanism in the case of tax. First, firms emphasize their responsibility to meet the letter of the law, as opposed to the spirit of the law, and to fulfill their fiduciary duty in executing corporate tax strategy. These emphases allow corporate management to rationalize the strategic use of aggressive tax avoidance strategies with the belief that they will be insulated from reputational penalty. Second, corporate tax rules are complex and firms' compliance with such rules are opaque in the sense that neither mandatory accounting standards nor voluntary corporate responsibility standards encourage strong accountability for or transparency around corporate tax behaviors. Finally, we discuss a number of emerging mechanisms of corporate tax accountability and propose that this area is one ripe for future research, both in terms of what these mechanisms might mean for corporate reputation, for changes in corporate behavior, and for possible consequences to society.

We contribute to the literature on governance and accountability in several ways. First, we support discussions that equate the role of the firm in society to that of a powerful citizen whose behavior sets an example for individuals and business entities alike. Second, we contribute to debates on firms' responsibilities to shareholders to minimize taxation while maximizing profit thereby prioritizing shareholders to the potential detriment of other stakeholders and the greater good for society. Third, we contribute to the literature on corporate reputation by suggesting that reputation does not function as an accountability mechanism from a corporate tax behavior perspective in consideration of the contemporary tax compliance and disclosure environment.

We present our work as an exploration of the empirical and conceptual relationship between corporate accountability, corporate reputation, and corporate social responsibility, specifically, corporate tax behavior. The remainder of our paper is organized around connecting these conceptual themes. First, we discuss our conceptual development and research question. Second, we present an empirical exploration of the connection between corporate reputation and corporate tax behavior. Third, we consider reputation among other mechanisms of corporate tax accountability. We then further discuss and conclude with proposed avenues for future research and implications.

Conceptual Development and Research Question

Corporate Accountability, Corporate Reputation, and Corporate Tax Behavior

Debates around to whom and for what corporations are accountable as it pertains to society have long held the attention of governance and accountability scholars. Scholars debate whether corporate actions should go beyond what is required by the law for corporations to meet their societal responsibilities, tax or otherwise. Some suggest that corporate social responsibility begins where the law ends (Davis 1973) and that social responsibilities of firms are not legislated but extend beyond corporations' fiduciary duty to shareholders to address the norms and expectations of society (Jones 1980; Dahlsrud 2008).

Socially oriented arguments are based on the premise that the firms' accountability to society ought to be commensurate with their social power (Davis 1960). Because the world's largest multinational corporations generate more revenue than many countries, their social power is significant, and so, therefore, is their accountability to society. However, the most prominent argument is that firms exist by the consent of society and, thus, will cease to exist if society ceases to support them. Therefore, firms should behave in a manner that meets the norms, values, and expectations of society (Sethi 1975). An established body of work on CSR is largely predicated upon a socially oriented perspective of corporate accountability.

Firms' expression of corporate responsibilities to society and studies of firm CSR, both made with greater frequency and volume than any time in history, shed light on CSR as an important mechanism of corporate accountability. For instance, financial analysts may use CSR activities to assess investments and special interest groups may use them to monitor corporate actions. Firms may use CSR to convey obligations to society, as public relations tools or to attract and maintain customers (Tschopp and Nastanski 2014). Consequently, firms may signal that they follow the best practices of CSR and may enjoy reputational rewards from constituents (Fombrun 2005).

Critics often view CSR activities as mechanisms of corporate reputation management. Such critics argue that CSR can be symbolic efforts to gain legitimacy (Hoffman 1997), decoupled from meanings that are no longer economically "rational" or effective, as well as more disingenuous facades (Cho et al. 2015). Still, firm's CSR activities have been argued to result in benefits to the firm in terms of positive consumer evaluation (Sen and Bhattacharya 2001) and reputation (Turban and Greening 1997). We consider the relationship between reputation and corporate social responsibility, and particularly the notion of reputation as a mechanism of accountability.

Reputation and Corporate Social Responsibility

Several conceptualizations of reputation dominate the literature, including "being known" which encompasses the role of prominence (e.g., Barnett et al. 2006; Rindova et al. 2005; Shamsie 2003) and "being known for something" which encompasses a perceived quality dimension (e.g., Fischer and Reuber 2007; Love and Kraatz 2009; Rindova et al. 2005). Antecedents of prominence include media rankings as an evaluation by general intermediaries and certifications of achievements as an evaluation by expert intermediaries (Rindova et al. 2005). The prominence dimension captures the degree to which a firm receives large-scale collective recognition in its field (Rindova et al. 2005). The perceived quality dimension captures the degree to which stakeholders evaluate a firm positively on a specific attribute, which has been primarily understood as the ability to produce quality products (Rindova et al. 2005; Devers et al. 2009). The quality dimension captures a firm's reputation defined as the beliefs of various stakeholders regarding the likelihood that the firm continues to perform well (Rindova et al. 2006). Thus, stakeholders view firms with positive reputational influence as worthy of collective recognition and likely to continue to be high performing. In this way, such firms set an example for individuals and business entities alike.

Reputation theory and research address the role that CSR plays in a firm's reputation (e.g., Fombrun and Shanley 1990; Turban and Greening 1997; Lai et al. 2010; Stanaland et al. 2011; Hsu 2012; Lin-Hi and Blumberg 2018). Fombrun and Shanley (1990) first showed that, in addition to firm performance, firm CSR (termed "contribution to social welfare") influenced a firm's reputation. Empirical results support the finding that corporate reputation follows from perceptions or assessments of firm CSR, as well as profitability and financial performance (Turban and Greening 1997; Brammer and Pavelin 2006; Cable and Graham 2000; Staw and Epstein 2000). A recently proposed view of reputation explicitly considers cultural and social norms to be a crucial aspect of reputation because field-level pressures to gain legitimacy and support prompt at least symbolic conformation (DiMaggio and Powell 1983; Scott 2014) to societal ethicality (Agarwal et al. 2017). In this perspective, a firm's reputation is tied to meeting socially constructed standards within the cultural system in which it is embedded (e.g., Love and Kraatz 2009). The firm does so by adopting structures and practices that are locally appropriate and culturally desirable (e.g., Staw and Epstein 2000). That is, stakeholders confer good reputations not only on firms that are able to fulfill specific financial and performance obligations, but also on firms that exemplify cultural fitness and conformity to local norms.

However, who are the stakeholders and how do they perceive reputational effects of firms whose behavior does not conform? Stakeholder populations and their perceptions are far from uniform across all corporate actors. For instance, there are mixed results on stakeholders' responses to negative information. The findings of some studies suggest that good reputation may lead stakeholders to give firms the benefit of the doubt when new negative information comes to light (Love and Kraatz 2009; Pfarrer et al. 2010; Zahller et al. 2015). Doh et al. (2010) found that a prior reputation for corporate social responsibility tempered negative stock market reaction to the announcement that a firm had been dropped from a prominent social responsibility investment index. Conversely, research on automobile product recalls suggest that having a good reputation for product quality may result in greater market share losses following product recalls (Rhee and Haunschild 2006).

The role of stakeholder perceptions and the adherence to cultural norms in a firm's reputation naturally connects to corporate social responsibility (CSR) research. Reputation has been found to act as a crucial mediator between the firm's CSR engagement and valuable firm outcomes, leading to firm growth (Saeidi et al. 2015), improved financial performance (Sanchez and Sotorrio 2007), and higher market evaluation (Lourrenco et al. 2014). These outcomes result from the role of reputation in signaling the firm's likely future behaviors and serve to reduce stakeholder uncertainty (e.g., Walker and Dyck 2014), create relational trust (e.g., Agarwal et al. 2015), and support the firm's legitimacy (e.g., Deephouse and Carter 2005). At the same time, corporate reputations are collective observer perceptions, highly influenced by processes of social construction, and corporate reputation may be reconstituted and reconstructed as new information comes to light for observers. Thus, the relationship between reputation and CSR is closely tied, and not necessarily linear and unidirectional with one construct as purely antecedents or outcomes.

Another factor that is closely tied to CSR and reputation is strategic flexibility. Martins (2005) contrasted reputation, in terms of how favorably outsiders view the firm, with the top manager's perceptions of the firm's identity and demonstrated how a discrepancy between the two can motivate the manager to institute change. Deephouse and Carter (2005) found that a good reputation allowed a commercial bank to deviate from normal strategic behavior without loss of reputation. Strategic flexibility could allow firms to engage in risky forms of CSR, such as activists leveraging firms' reputational risk to improve labor and work conditions (Wright 2016). Risky forms of CSR for firms with good reputations might include stretching the limits of aggressive tax behavior, particularly where a firm's engagement in corporate social responsibility encompasses accountability for taxes.

Corporate Social Responsibility and Corporate Tax Behavior

Christensen and Murphy (2004) describe corporations' tax responsibilities and its relationship to its social responsibilities persuasively:

> Paying taxes is perhaps the most fundamental way in which private and corporate citizens engage with broader society. Tax revenues are the lifeblood of the social contract…that underpins liberty and the market economy. It is therefore curious that tax minimization through elaborate and frequently aggressive tax avoidance strategies is regarded as one of the prime duties that directors are required to perform on behalf of their shareholders. It is more curious that Corporate Social Responsibility (CSR)…has scarcely begun to question companies in the area where their corporate citizenship is most tangible and important—the payment of tax (p. 37).

The argument that corporate taxes are a CSR issue is echoed in the academic literature. For example, Lanis and Richardson (2012) argue that firms are corporate citizens where they operate and make use of public resources to conduct their operations. As such, they are accountable for contributing their fair share to help pay for those resources. Similarly, other scholars have highlighted an important social cost of aggressive corporate tax behaviors. Specifically, because governments rely on tax revenues to operate, when firms avoid taxes the burden of those tax revenues shift to other tax payers who likely have fewer resources than firms. Consequently, aggressive tax avoidance can promote social inequality (Devinney 2009; Huseynov and Klamm 2012; Sikka 2010; Lanis and Richardson 2012).

A recent stream of research that examines the link between CSR and corporate tax behavior provides evidence of whether firms believe corporate tax behavior is a CSR issue. At the heart of this research stream is an empirical question generally posed as follows: "Are corporations rated as more socially responsible also less tax aggressive?" Fundamentally, empirical researchers are investigating whether and how corporations can balance their fiduciary responsibilities to optimize shareholder returns with their more general responsibilities to abide by a broader social contract that allows them to continue to operate in civil society. The underlying assumption is that corporate social responsibility includes an obligation to incorporate paying one's fair share into corporate tax policies. CSR therefore provides an ethical frame for investigating empirically how corporate accountability to government and civil society can be evaluated regarding corporate tax responsibilities.

The stream of research on the relationship between CSR performance and tax avoidance has produced mixed results about whether firms view tax avoidance as a CSR issue. On one hand, Lanis and Richardson (2015) found that the higher a company's reported level of social performance, as measured by KLD scores, the less likely the company is to engage in significant tax avoidance. Their results also show that companies that score higher in the KLD areas of community relations and diversity were least likely to engage in tax avoidance. Other empirical studies have produced similar results. Lanis and Richardson (2012), report a negative correlation between CSR disclosure and effective tax rates among 408 publicly listed Australian corporations in 2008 and 2009. Finally, Hoi et al. (2013) use a large sample of U.S. public companies to provide evidence that firms with more irresponsible CSR activities (i.e., negative social ratings from KLD) are more likely to utilize tax shelters, have greater permanent/discretionary book-tax differences, and have a lower cash effective tax rates. These results are consistent with the view that firms view tax avoidance as a CSR issue.

On the other hand, other studies provide evidence that suggests tax avoidance is not a CSR issue. That is, Davis et al. (2016) report that, for a sample of U.S. corporations, CSR (two proxies: total strengths minus total concerns from MSCI database, and the same measure but for only the Community category) is negatively related to cash effective tax rates (ETRs). Watson (2015) provides evidence that among U.S. firms, CSR performance (proxied by KLD strengths, weaknesses, and net strengths/weaknesses) is positively associated with tax avoidance (proxied by cash ETRs) when current or future earnings performance is low, but this effect disappears when current or future earnings performance is high. In other words, firms are more willing to pay taxes when current or future earnings can support the expenditure, but not when money is (or is expected to be) tight. Other studies even provide evidence that corporations use CSR to obfuscate tax avoidance schemes (Prior et al. 2008; Preuss 2010; Dowling 2014).

Overall, there is mixed evidence about the link between CSR and reputation and also about whether tax policy is a CSR issue. If tax policy is a CSR issue, and there is a link between CSR and overall reputation, then we should observe a relationship between tax policy and overall reputation. We examine the reputational consequences for corporations who exhibit particular tax behaviors through an exploratory analysis of corporate reputation and corporate tax avoidance policies and behaviors. In examining these consequences, we consider mechanisms for holding firms accountable for corporate tax behaviors.

Research Method

Exploratory analysis is often accomplished through case study to provide description as well as to generate theory (Eisenhardt 1989; Yin 2009). Case studies can be both quantitative and qualitative and combine different sources of data (Eisenhardt 1989). Quantitative evidence may indicate relationships that may not be salient and create the foundation for analysis while qualitative evidence is useful for understanding the conceptual basis or theory underlying relationships revealed in the quantitative data (Jick 1979; Mintzberg 1979). Our case study uses quantitative analysis of firm level reputation and tax policy data supplemented by qualitative evidence used to interpret that data.

Case studies involve the selection of an appropriate population, or set of entities, from which a research sample can be drawn which reduces extraneous variation and clarifies the domain of the findings (Eisenhardt 1989). Our population is large, multinational corporations that are publicly traded and domiciled in the U.S. and that have recognized reputations and publicly available tax policy data. The data available on corporate reputation and tax policy limit sample sizes making case study particularly useful. The sample derived from the population is more theoretical, than statistical (Glaser and Strauss 1967); designed to provide examples of polar types and extreme situations in which the phenomenon of interest is "transparently observable" (Pettigrew 1990, p. 275).

Data Collection and Analysis

We compiled publicly available corporate reputation and tax policy data for a sample of large, multinational corporations. We posit that these firms have an established corporate reputation, positive or negative, considering the visibility resulting from their size and prominence in the global economy. Our reputation measure is aligned with a conceptualization of reputation as "being known," considering that firms receive significant recognition in the field being ranked and evaluated by intermediaries (Barnett et al. 2006; Rindova et al. 2005). Our measure is also aligned with a conceptualization of reputation as being known "for something" as the firms in our compilation are believed by stakeholders to deliver on key dimensions of performance (Rindova et al. 2006; Devers et al. 2009).

Data for our corporate reputation ranking is compiled from three sources: *Fortune*'s "World's Most Admired Companies," the Reputation Institute's "Global RepTrak," and the Harris Poll's "Reputation Quotient (RQ) Ratings." *Fortune* publishes a list of the 50 Most Admired Companies in the Global 500 database. Each company's numerical ranking is based on nine attributes, including one CSR attribute, considered by executives, analysts, directors and experts associated with the population of companies. In contrast, the Harris Poll publishes its RQ ratings for 100 companies nominated and then rated on 20 attributes across 6 key areas, including three key CSR areas, through surveys of the general public. Finally, the Reputation Institute publishes its Global RepTrak report of 100 companies ranked on seven dimensions, including three CSR-specific dimensions, through a study of global company reputation posed to respondents, including investors, consumers, and employees who are familiar with the companies.[3] We produced a corporate ranking that considers the *Fortune* ranking, which represents the views of executives and constituents of the *Fortune* 500, as well as the Reputation Institute and Harris Poll rankings, which we used to adjust executive sentiment for general public sentiment. We consider general public sentiment to be the overall audience of concern as our research is interested in potential reputational consequences by the broadest set of stakeholders and citizens in society and their views on whether firms are paying their fair share of taxes.

While the Reputation Institute and the Harris Poll contain both a reputation score and a numerical ranking, *Forbes* contains only a numerical rank. As such, we focused on ranks rather than scores and hand collected the numerical rankings of companies from each of our three sources for the 5-year period 2013 to 2017. We narrowed our sample down to those companies who are reflected consistently within our three sources and across the five-years of data. We identified 41 U.S.-domiciled firms, and using the numerical ranking data, calculated an average reputation ranking (scaled to 100) for these firms where the higher the ranking, the better the reputation.

For these same firms and over the same 5-year period, we followed Chen et al. (2010) and collected data to calculate the cash effective tax rate (CETR) which we used as our measure for tax avoidance.[4] CETR is calculated by dividing the sum of the cash taxes paid (Compustat data item 317) from 2013 to 2017 by the sum of the pre-tax income (Compustat data item 170) over the same time period. The CETR is a commonly used proxy in the accounting literature for aggressive tax behavior "because it captures a broad range of tax avoidance activities, including income shifting from high-tax to low-tax jurisdictions (e.g., strategic transfer pricing arrangements, cost-sharing agreements, income stripping using intracompany debt)" and because it allows researchers "to speak to changes in tax avoidance generally, without specifying ex ante precise tax avoidance strategies or rule changes which could have evolved over time" (Dyreng et al. 2017, p. 445).

One advantage of the CETR is that it measures taxes paid as opposed to tax expense which is influenced by changes in estimates, including the valuation allowance and tax cushion (Dyreng et al. 2008). A second advantage is that looking at tax payments over the long-term avoids the volatility inherent in annual effective tax rates and the mismatch that exists between earnings and taxes paid (Hanlon and Heitzman 2010). A third advantage is that CETR uses publicly available data to measure tax avoidance which is what stakeholders would use to form their perceptions of a firm's reputation.

We acknowledge that there are multiple proxies for both corporate reputation and corporate tax behavior. Our compilation resulted in one view of the relationship between corporate reputation and corporate tax behavior for the firms presented in Fig. 1. We first elaborate on the relationships reflected in Fig. 1, using the figure as a launching point for an empirical and conceptual exploration of a link that appears currently underdeveloped and not well understood in the literature or in practice. Then, our conceptual exploration discusses possible reasons for this from an accountability standpoint, including tax compliance and tax disclosure considerations.

Empirical Analysis

Figure 1 reveals that, overall, there is not a neatly recognizable relationship between corporate reputation and corporate tax behavior. This implies that tax policy behavior does not have the same reputational consequences as other CSR behavior. To explore this disconnect, we compile additional data which is indicative of firms' tax-aggressive behaviors and corporate policy choices and which supplements our CETR measure.[5] For each firm, we considered the following corporate tax policy data:

[3] The Reputation Institute acknowledges that its Global RepTrack ranking is likely influenced by consumer sentiment surrounding products and services which may dilute any correlation. However, in recent years, they also indicated sentiment around Governance and Citizenship dimensions, which may be more reflective of tax behavior as an ethical business practice, to be growing. We believe that growth offsets the dilution concern. Furthermore, we collected data from the Reputation Institute's CSR-specific reputation ranking, which includes the Governance, Citizenship and Workplace dimensions, and find that using CSR-specific measures does not reveal the relationship with tax behavior to be any clearer. These results are untabulated in our paper as they do not change our findings. Our other two sources of reputation rankings also contain CSR dimensions; however, access to per-dimension data is not publicly available.

[4] There is not a universally accepted construct to measure tax avoidance used in the accounting literature (Hanlon and Heitzman 2010). Most measures approximate tax avoidance using financial statement data because this data is publicly available while tax return data is not. We recognize that using an absolute tax rate measure such as the CETR approximates the taxes a firm actually paid but does not speak to the taxes a firm should have paid. This is because measuring taxes a firm should have paid is impractical, particularly for multinational firms who pay taxes in a number of different tax jurisdictions around the world, all of which have different tax laws and tax rates.

[5] We also gathered 5 years of data on each corporation's *uncovered tax benefit* (UTB). This amount, found in a corporation's financial statements, is an estimate of potential tax dollars sheltered from payment that are more likely than less likely to have to be paid in back taxes if challenged by the Internal Revenue Service. When performing the same analyses using UTB as opposed to CETR, we found very similar patterns and draw the same conclusions. While both CETR and UTB are valid measures of tax avoidance (Lisowsky et al. 2013). CETR is the more standard measure of tax avoidance used in the accounting literature and, thus, is the main focus of our analysis.

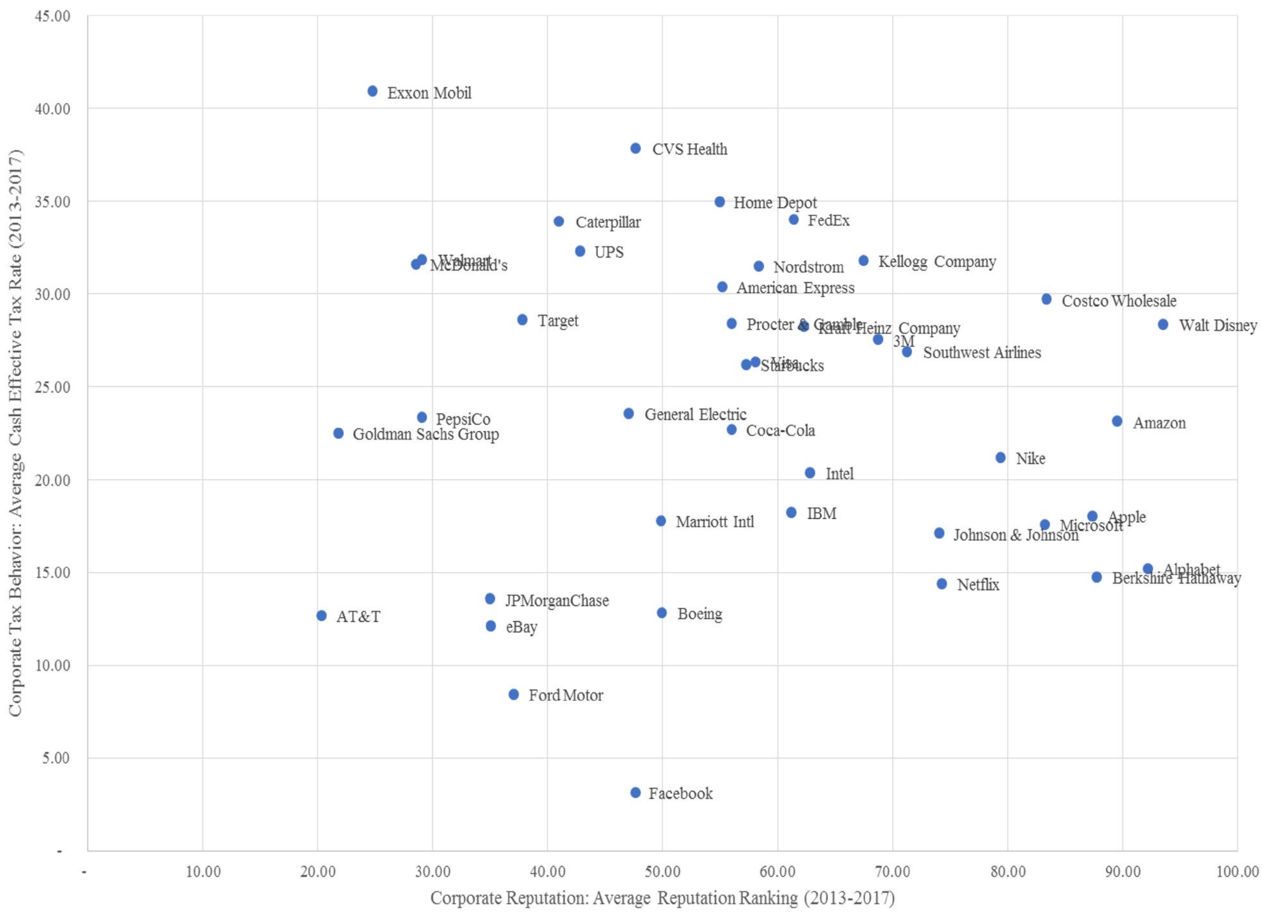

Fig. 1 Corporate reputation and corporate tax behavior

- firms who present corporate tax policy information to the public,[6]
- number of tax haven subsidiaries a company operates, [7]
- amount of profits held offshore, in millions of dollars.[8]

We report the number of subsidiaries a firm operates in tax havens and the amount of profits held offshore in Table 1.

We also collected basic CSR data on each firm, including: whether the firm issues a social responsibility report either formally or by addressing specific CSR issues directly on its website, whether the firm claims in its social responsibility reporting to follow the Global Reporting Initiative (GRI), and whether the firm's reporting makes any specific mention of corporate tax policy. We focused on firms reporting under the GRI model because it is one of the most commonly used models of CSR reporting and one which has recently acknowledged corporate tax and negative social aspects of tax avoidance as potentially material activities.[9] We used this additional tax and CSR data to highlight trends across our sample firms in an effort to better understand the reputational consequences for corporations who exhibit particular tax behaviors.

CSR and Corporate Tax Disclosures

All but three of the firms in Fig. 1 prepare some kind of social responsibility reporting or present other issue-specific CSR dimensions on their websites. Of the firms that provide social responsibility reporting, approximately 60% of them present this reporting in accordance with the GRI. Of the

[6] Retrieved directly from search of corporate websites, accessed as of May 15, 2018. Note U.K. law now requires the disclosure of corporate tax policy by firms with U.K. subsidiaries.

[7] Report of Offshore Shell Games: The Use of Offshore Tax Havens by Fortune 500 Companies (2017). U.S. Public Interest Research Group Education Fund and the Institute on Taxation and Economic Policy.

[8] Ibid.

[9] https://www.globalreporting.org/information/news-and-press-center/Pages/Tax-transparency,-regulation-and-the-need-for-greater-disclosure.aspx, accessed May 6, 2018.

Table 1 Top 20 companies with most tax havens and dollars held offshore

Company	Number of subsidiaries in tax havens	$Millions held offshore
3M	14	14,000
Alphabet	Not in top 20 (1)	60,700
American Express	31	10,400
Apple	Not in top 20 (3)	246,000
Berkshire Hathaway	10	12,400
Caterpillar	67	16,000
Coca-Cola	14	35,500
Exxon Mobil	38	54,000
FedEx	21	Not in top 20 (2100)
General Electric	22	82,000
Goldman Sachs Group	905	21,340
IBM	18	71,400
Intel	14	46,400
Johnson & Johnson	60	66,200
JPMorgan Chase	170	38,400
Kellogg Company	42	Not in top 20 (1900)
Kraft Heinz Company	35	Not in top 20 (0 estimated)
Marriott Intl	147	Not in top 20 (3950)
McDonalds	Not in top 20 (6)	16,000
Microsoft	Not in top 20 (5)	142,000
Nike	54	12,200
PepsiCo	133	44,900
Procter & Gamble	32	49,000
Starbucks	18	Not in top 20 (3300)
Walmart	Not in top 20 (0)	26,600

The source of this information is the 2017 Offshore Shell Games report issued by the Institute on Taxation and Economic Policy (ITEP) in conjunction with the U.S. Public Interest Research Group (PIRG) Education Fund. This report comments on the use of offshore tax havens by Fortune 500 companies, including the number of subsidiaries held in tax havens and millions of dollars of earnings booked offshore. Tax havens were identified based on country lists compiled by the OECD, the National Bureau of Economic Research, a U.S. District Court Order and a GAO report. ITEP/PIRG then counted the number of subsidiaries in these countries disclosed in Exhibit 21 of the 10-k filings of listed companies. ITEP/PIRG also used 10-k reports to identify millions of dollars held offshore. This is typically found in the tax footnote of the 10-k filings of listed companies who disclose amounts "permanently invested" abroad (ITEP/PIRG 2017)

40% of firms who do not perform their social responsibility reporting in accordance with GRI, only one firm (ExxonMobil) mentions corporate tax policy in its report. ExxonMobil refers to taxes in its social responsibility report in relation to revenue-neutral carbon taxes and also when discussing its political advocacy for tax policies that encourage competition in the global energy market. Thus, their reporting is less from the standpoint of accountability and more from the standpoint of mobilizing tax strategy to the benefit of shareholders.

Even for GRI reporting firms, despite the GRI's acknowledgement of firm's tax activities as a potentially material social responsibility, only half of the firms reporting under GRI mention tax policy in their corporate social reports. Where tax policy is mentioned, it is discussed in a limited fashion with firms simply reporting the amount of taxes paid worldwide (UPS) in their CSR reports. Similar to ExxonMobil, tax policy also might be discussed in a way which is less indicative of accountability for corporate tax policy choices and more indicative of the tax benefits resulting from select activities. For example, firms discuss tax in relation to: carbon tax credits and environmental activities (3 M); tax-free savings accounts offered to employees (FedEx, Visa); investments in low income communities that produce affordable housing tax credits (American Express); local and state tax rebate programs available for solar energy generation (Home Depot); and sales tax benefits (Walmart).

We found only one firm that acknowledged the relationship between reputation and tax policy. UPS's 2016 *Corporate Sustainability Report: The Road Ahead* contains the following:

> UPS's fundamental tax policy is to ensure the tax results for all our global entities are properly reported in accordance with applicable laws, rules, and regulations. We operate our business where our customers are located, so while tax management is important to the company, how and where we conduct business activities aligns with our goal of providing superior customer service and shareholder value. We consider UPS's reputation, brand, and corporate responsibility when we evaluate our tax positions. Accordingly, we enter only into structures or transactions designed to further our commercial purpose (UPS 2016).

Accepting that tax is a CSR issue, we might expect a relationship between firm's corporate tax behaviors and corporate reputation. Indeed, Elbra and Mikler (2017) argue that paying a fair share is becoming a significant factor in determining a corporation's reputation. Yet, when considering Fig. 1, there seems little coherence regarding which firms exhibit certain types of corporate tax behavior through higher/lower tax rates, as well as a disconnect between firm's tax behavior and corporate reputation. We illustrate this in the sections which follow.

Corporate Reputation and Higher Corporate Tax Rates

We first discuss corporate reputation in relation to firms whose corporate tax behavior exhibits higher overall tax rates. We note that a higher corporate tax rate does not necessarily reflect a firm with a higher corporate reputation ranking. For instance, the firm with the highest corporate tax rate in Fig. 1 is ExxonMobil. ExxonMobil's online corporate tax disclosures highlight how, relative to other industries, ExxonMobil has a higher tax rate, seemingly distinguishing their "good" tax behavior from the "bad" behavior of others.[10] However, in the late 2000s, ExxonMobil was implicated as a tax avoider that funneled profits through subsidiaries in the Cayman Islands and reinvested those earnings in foreign subsidiaries to avoid higher U.S. tax rates.[11] While ExxonMobil's corporate tax accountability (tax rate) appears high, Table 1 shows that the firm continues to operate subsidiaries in nearly 40 tax havens and maintains an estimated $50 billion in profits offshore.

In contrast, Walmart's corporate reputation falls close to that of ExxonMobil yet the firm has a lower tax rate than that of ExxonMobil. Walmart has been implicated in benefiting from lower tax rates by holding over $26 billion in undisclosed overseas tax havens where it has no retail presence (see Table 1). Like ExxonMobil, Walmart points to its corporate tax rate as evidence of tax accountability and disputes allegations of tax avoidance.[12] However, other examples of Walmart's contentious tax policy choices have been asserted. For instance, in the corporate social reporting of Walmart, the firm refers to taxes as a source of sales tax revenue to the communities in which the firm operates. While Walmart claims that its stores are an economic boon to communities, the firm has been accused of seeking ways to reduce revenue flowing to these communities through other subsidies, assistance, and means for reducing tax payments.[13] Distinct from ExxonMobil, the Walmart case highlights how tax policy is not just a global or federal issue but one that extends to a discussion of fair share at the state and local level. However, alongside the firm's global offshore activities, state and local tax concerns do not appear to have greatly penalized Walmart from a reputation standpoint.

Finally, Starbucks has a corporate tax rate that falls, on average, near that of Walmart yet the firm has a better corporate reputation despite exhibiting some of the same aggressive tax behaviors as both ExxonMobil and Walmart. Starbucks received significant media attention in 2013 when the firm was investigated for consistent losses reported to tax authorities in the U.K. while the firm reported increasing global profits.[14] Between 2010 and 2012, in particular, Starbucks reported no U.K. profit and paid no income tax on £1.1 billion in U.K. sales due to a tax minimization strategy that reduced taxes in countries with higher tax rates. At the same time, Starbucks has been recognized as a socially oriented company for its interest in the welfare of its employees alongside its treatment of coffee suppliers equitably and in accordance with ethical practices. Starbucks tax minimization and avoidance behavior has been both highly publicized and noted as being at odds with the firm's social orientation (Dowling 2014). It also goes against the finding of Lanis and Richardson (2015) that firms who are accountable for CSR (e.g. higher levels of social reporting and performance) are more likely to exhibit accountable corporate tax behaviors (e.g. less tax avoidance). Starbucks' response was to acknowledge its behavior and agree to pay its U.K. tax obligations, which perhaps explains how the firm's reputation remains higher than ExxonMobil and Walmart.

Overall, the corporate tax behavior of firms discussed in this section reflect higher corporate tax rates. Our exploratory analysis of these firms reveals that firms with higher tax rates largely exhibit a lack of accountability for their fair share based on other factors of corporate tax behavior that are embedded into their overall tax rates. Often times, a lack of accountability for tax behaviors does not translate into consistent reputational effects.

Corporate Reputation and Lower Corporate Tax Rates

In this section, we outline corporate reputation in relation to firms whose corporate tax behavior reflects lower overall tax rates. We observe that lower corporate tax rates do not consistently translate into a lower corporate reputation ranking. Indeed, firms with some of the highest corporate reputations—Alphabet, Apple, and Microsoft—represent firms with some of the lowest corporate tax rates and, based on the data in Table 1, some of the highest dollars of profit held offshore or the largest number of subsidiaries in tax havens. For instance, a case between Microsoft and the U.S. tax authority brought to light the firm's strategy, again involving shifting profits to low rate countries in the EU to lower the firm's tax burden in the U.S.[15] As with Starbucks, Microsoft's tax policy seemingly contradicts the firm's self-presentation as a model citizen, yet the firm's corporate reputation remains one of the highest.

[10] http://corporate.exxonmobil.com/en/current-issues/us-tax-policy, accessed May 6, 2018.

[11] Under the (prior) US tax regulation, as long as firms intend to indefinitely reinvest those profits outside of the US, they are not subject to US tax.

[12] https://www.forbes.com/sites/clareoconnor/2015/06/18/walmart-report-on-76-billion-hidden-in-tax-havens-flawed/#3ae323d055ea, accessed May 6, 2018.

[13] https://clawback.org/2011/02/23/report-walmart-state-and-local-tax-avoidance-exceeds-400-million-annually/, accessed May 6, 2018.

[14] https://www.reuters.com/article/us-britain-starbucks-tax/special-report-how-starbucks-avoids-uk-taxes-idUSBRE89E0EX20121015, accessed May 6, 2018.

[15] https://www.seattletimes.com/business/microsoft/how-microsoft-parks-profits-offshore-to-pare-its-tax-bill/, accessed May 6, 2018.

Similarly, Apple and Alphabet (Google) have both been embroiled in controversies over their corporate tax behavior. These firms were the target of heavy criticism over tax strategies that transferred profits to European countries with lower tax rates. This technically "legal" shift of profits allowed the firms to pay a tax rate substantially lower than the corporate rate in the U.S.[16] Apple managed to deflect a significant tax settlement in the EU with Apple's CEO, defending the firm's low corporate tax rate to shareholders by highlighting the firm's compliance with tax law and payment of all the taxes it owes.[17] The Google case, on the other hand, culminated in a tax settlement between Google and the U.K. for a decade of back taxes in an amount that critics suggest is small compared to the overall profits made by Google in the U.K.. Google's (former) Chairman said in 2013 that "What we are doing is legal. I'm rather perplexed by this debate, which has been going in the U.K. for quite some time because I view taxes as not optional. I view that you should pay the taxes that are legally required."[18] Declarations of compliance with the law deflect from firm's aggressive tax behavior, behavior which does not appear to translate into significant reputational penalty.

Finally, we highlight three high-reputation firms in our study that do not prepare any kind of formal comprehensive CSR reporting and do not present other issue-specific CSR dimensions on their websites in any formal sense—Amazon, Berkshire Hathaway, and Netflix. These firms are outliers in terms of the relationship between corporate social reporting and corporate reputation at least from the perspective that if they are completely opaque about their social accountability, including on the topic of taxes, we might expect a negative reputational effect. Yet these firms have some of the highest reputation rankings in Fig. 1.

Amazon has the highest corporate tax rate of the three. However, Amazon's tax practices reflect those of many other firms that channel profits through holding companies in lower tax countries in order to avoid paying taxes in countries with higher rates.[19] In the U.S., Amazon has also attracted criticism for not collecting sales tax from customers in various states.[20] By not collecting and remitting sales taxes, Amazon is able to maintain a tax-driven price advantage over local business—an argument that competitors such as Walmart have used against Amazon in trying to protect brick and mortar retail.[21] Compounding these problems have been reports of poor treatment of workers, with allegations of dismissals for health problems, non-payment and anti-unionization tactics including mass layoffs. Negative reputational effects to Amazon, however, are not recognizable in our analysis despite negative press on tax and other social matters.

The corporate tax behaviors of firms discussed in this section reflect lower corporate tax rates yet many maintain strong corporate reputations. Based on our exploratory analysis, this stands even where the firms produce no formal reporting on corporate social responsibility. Overall, these firms show less accountability for tax based on their lower tax rates. In addition, they have some of the highest amounts held offshore and the greatest numbers of subsidiaries held in tax havens. Yet they maintain the highest corporate reputations.

Based on our empirical work in these sections, when we consider corporate reputation data alongside data which reflects corporate tax behavior we observe no recognizable trend or pattern indicating that reputation is associated with or affected by certain types of corporate tax behaviors. That is, our exploratory work suggests that corporate tax behavior produces few patterns of reputational consequences that would motivate a change in firm behavior and therefore reputation in the case of corporate tax behavior is not a well-functioning mechanism for holding corporations to account. However, explanations for the break in this link remain unclear. Is tax not considered an issue of corporate social responsibility? Or does the broader stakeholder population not consider questionable tax behavior in their perceptions of corporate reputation?

Discussion

We pursue two explanations for why reputation might not be well-functioning as an accountability mechanism in the case of tax. The first, the tax compliance perspective, considers that most firms believe it is their responsibility to meet the letter of the law, as opposed to the spirit of the law, in executing corporate tax strategy. It is therefore corporate management's fiduciary duty to minimize the firm's tax obligations, and as such the execution of this duty provides management the strategic flexibility to pursue aggressive tax avoidance strategies with little concern for reputational penalty by stakeholders. The second explanation, the tax disclosure perspective, is that stakeholders might simply not have the

[16] https://www.forbes.com/sites/eriksherman/2017/11/07/apple-an-example-of-why-corporate-tax-reform-isnt-enough/2/#23be5db4368d, accessed May 6, 2018.

[17] http://www.apple.com/ie/customer-letter/, accessed May 6, 2018.

[18] https://www.theguardian.com/technology/2013/may/27/google-eric-schmidt-change-law-tax, accessed May 6, 2018.

[19] http://fortune.com/2015/05/25/amazon-tax-eu-regulators/, accessed May 6, 2018.

[20] https://itep.org/amazons-local-state-and-federal-tax-issues-explained/, accessed May 6, 2018.

[21] https://www.cnbc.com/2018/03/29/former-walmart-us-ceo-congress-consider-splitting-up-amazon.html, accessed May 6, 2018.

information they need to respond appropriately to aggressive tax behaviors. Corporate tax rules are complex and firms' disclosure of compliance with such rules is opaque in the sense that standards for tax disclosure are weak on accountability for or transparency around corporate tax behaviors. We explore these explanations in turn. To conclude, we explore how research in reputation and social evaluations, specifically the concepts of celebrity and strategic silence, can explain how both the tax compliance perspective, or the "letter of the law," and the tax disclosure perspective, or the "spirit of the law" can operate simultaneously.

The Tax Compliance Perspective

U.S. based multinational corporations have increasingly relied on complicated tax strategies and the use of tax havens to avoid significant tax liabilities (Sikka 2010). Prior tax rules were easily exploited by multinational companies to shift profits to countries that have very low corporate tax rates. Such techniques were used across many industries and firms. These tax strategies were not illegal but deprived government at various levels of a sizable amount of revenue normally dedicated to public services. Over the past decade, this deprivation has been the subject of numerous media and tax authority investigations.

Curiously, however, it is not uncommon for these multinationals to promote themselves as being socially responsible despite engaging in aggressive tax avoidance (Preuss 2010; Huseynov and Klamm 2012). However paradoxical this may seem, tax avoidance is arguably consistent with definitions of CSR published by some authoritative organizations, provided firms' tax practices stay within the bounds of the law. For instance, the European Commission states that CSR is "the responsibility of enterprises for their impact on society" and goes on to assert that firms "can become socially responsible by following the law" (European Commission 2018).

A strict interpretation of "following the law" is that firms are accountable for "staying within the rules of the game" (Friedman 1970) by following the *letter* of the law. According to this interpretation, using tax loopholes and complex arrangements to minimize tax payments does not preclude firms from claiming to be socially responsible. Rather, all firms who pay the taxes which they are required to by law are, therefore socially responsible in that regard. Consequently, the onus is on lawmakers to implement a tax code that establishes what each firm's socially responsible contribution is to governments for the creation and maintenance of public goods. This view is evident in the discourse of Google's current CEO who allocates responsibility for paying a fair share in various jurisdictions to the authorities, arguing that "We are happy to pay a higher amount, whatever the world agrees on as the right framework. It's not an issue about the amount of taxes we pay, as much as how you divide it among various countries."[22]

This attitude of following the letter of the law when it comes to tax payments is also reflected in statements of some of the U.S. multinationals that recently came under scrutiny in the United Kingdom for their tax practices. For example, in a tax policy statement, Alphabet disclosed that "we seek to identify, evaluate, monitor and manage tax risks to ensure that we comply in full with our legal obligations" (Alphabet 2017). Similarly, Apple declared that "Taxes play a necessary and important role in our society and Apple believes every corporation has a responsibility to pay all the taxes they owe" (Apple 2017). More explicitly, GE stated the following about its U.S. tax policy in its 2010 Citizenship Report:

> Like any business or individual, we do like to keep our tax rate low. But we fully comply with the law and there are no exceptions. GE acts with integrity in relation to our tax obligations wherever we operate. At the same time, we have a responsibility to our shareowners to reduce our tax costs as the law allows. Under any system, GE will comply and pay what we owe. (Davis et al. 2016).

One argument GE highlights in its statement that suggests it is accountable to follow the letter of the law when it comes to tax payments is that paying more tax than required violates its fiduciary responsibility to its shareholders. A similar argument has been made that paying more taxes than required reduces firms' ability to deliver on other basic social responsibilities like providing affordable goods and services to consumers or providing livable wages to employees (Devinney 2009). In addition, academic research provides evidence that corporate tax payments reduce investment and entrepreneurship (Djankov et al. 2008), and suggests that firms can allocate capital for social good more efficiently than governments (Porter and Kramer 2006). Collectively, these arguments attempt to legitimize firms' aggressive tax practices and even imply that these practices result in better corporate citizenship.[23]

In contrast, it can be argued that a letter-of-the-law approach to accountability substitutes compliance for moral

[22] https://www.theguardian.com/technology/2018/jan/24/google-ceo-were-happy-to-pay-more-tax, accessed May 6, 2018.

[23] Many taxpayers, including multinational corporations, also participate politically in the development and passage of applicable tax laws. Corporations are especially effective in having their perspectives on tax law considered through lobbying efforts and making political campaign contributions. Thus, corporations also influence the writing of the "letter of the law" to work to their advantage, which is often at odds with the "spirit of the law" (Roberts and Bobek 2004).

sense-making, and therefore, circumvents firms' moral accountability to stakeholders (Painter-Morland 2007). In line with this view, the United Nations Global Compact Management Model speaks of CSR as "respecting the spirit of international standards" and encourages firms to use "international standards when [they are] more exacting than national laws" (United Nations 2010). This line of thinking is consistent with socially responsible tax payments as adhering to the *spirit* of the tax laws rather than the letter of the laws, and it is reflected in some firms' stated tax policies. For example, in its 2017 Citizenship Report, Procter & Gamble states:

> P&G's approach to taxes is also based on our [Purpose, Values and Principles]. Consistent with the law and international norms, we believe tax should follow business substance and that profits are generated where key business activities take place. P&G is committed to the highest level of tax compliance. In doing so, we observe and adhere to the tax law, the underlying tax policy intent, and the disclosure and reporting requirements (P&G 2017).

The public reaction to recent media attention on U.S. multinational firms paying little to no taxes due to complex tax arrangements suggests that society generally believes firms are responsible for following the spirit rather than the letter of national and international tax laws. However, aggressive tax avoidance is evidently a widespread practice (Dowling 2014). So why is society not holding these firms accountable? One critical reason may be that the mechanisms available to society to hold firms accountable are currently inadequate.

The Tax Disclosure Perspective

The primary accountability mechanism for U.S.-based firms is public disclosure as required by U.S. Generally Accepted Accounting Principles (GAAP). However, a common complaint is that tax disclosures made in conformance to GAAP are opaque and allow firms to obfuscate this information (FACT Coalition 2016). Consequently, GAAP disclosures currently keep stakeholders in the dark about the complexity of firms' tax arrangements and obscure potential risks from shareholders pertaining to these arrangements. The opacity of GAAP tax disclosures stems in part from the aggregation of tax information by U.S. multinationals. This aggregation technique has led to a strong call for GAAP changes which would make corporate tax payments more transparent (SASB 2016). In response to this call, the Financial Accounting Standards Board (FASB) has an ongoing project that currently proposes several changes to tax-related disclosures for U.S. multinationals, including bifurcating tax information into foreign and domestic components (FASB 2018). While this project is generally viewed as a positive step, many of the comment letters to the FASB proposal expressed that it does not go far enough to address the informational needs of stakeholders (ITEP 2016; FASB 2017).

The FASB's approach contrasts with more drastic measures the Organisation for Economic Co-operation and Development (OECD) has recently taken in overhauling the global tax system, which includes a recommendation that firms proactively disclose to governments where they pay their taxes and generate income. The European Commission has embraced this recommendation in moving towards greater tax accountability by introducing country-by-country public reporting requirements for the largest companies in the European Union.[24] Alongside this, countries have taken individual measures towards tax accountability.

Since 2017, firms provide mandatory reporting of their tax strategy for U.K. subsidiaries as part of the U.K. Finance Act of 2016. As part of the U.K. Finance Act, firms publicly present their tax strategy, mainly on the corporate website. Among the firms in Fig. 1, Kellogg, for instance, highlights the firm's adherence to the U.K. Finance Act in its online statement of "Tax Policy and Objectives" which includes the following:

> We pay the correct amount of taxes locally in each country in which we operate, reflecting the actual economic and legal activities taking place there and the value created in the normal course of business. We work to ensure timely and accurate tax payments to all relevant tax authorities. We do not pay taxes that are not legally due or that are claimed on unprincipled or unjustified basis (Kellogg 2017).

The disclosure made by Kellogg is legalistic and evidences a compliance perspective in accordance with the above discussion. In addition, a cursory review of the statements of other firm's U.K. web reporting indicates the use of common language between firms which may not be informative or provide the intended accountability and transparency.

The U.S., however, has declined to mandate such disclosure and, therefore, firms are under no obligation to detail the geographic breakdown of their revenue and tax bill under the OECD recommendation. Nor does the U.S. mandate tax strategy disclosures, outside of any (voluntary) risk reporting a firm might provide in its annual report. Coupled with country-level competition for attractive corporate tax rates, differences in disclosure suggest that the global playing field for taxation remains uneven and continues to

[24] https://ec.europa.eu/taxation_customs/business/tax-cooperation-control/administrative-cooperation/enhanced-administrative-cooperation-field-direct-taxation/country-country-reporting_en, accessed May 6, 2018.

create opportunities for global tax arbitrage. In certain ways, government regulators may then be complicit in the disconnect between corporate tax accountability and corporate reputation.

A number of secondary accountability mechanisms also appear soft when it comes to corporate income tax transparency. For example, firms often adhere to CSR reporting models to guide their disclosures on CSR topics. Two of the primary models that firms use are provided by the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) (Johnson et al. 2018). However, the SASB model does not address the payment of income taxes, and firms generally appear to ignore the GRI's requirements to disclose payments of corporate, income, and property taxes to governments by country (GRI 2016). Specifically, in the most recent CSR report of 25 U.S. multinational firms we examined who state they use or adhere to the GRI model, 20 either refer the reader to the GAAP disclosures in the 10-K/annual report or provide aggregated tax payment information, and 5 firms do not provide any income tax information.[25] Furthermore, many companies domiciled in tax havens and other tax aggressive companies often legitimize their behavior in producing lengthy, opaque CSR reports (Christensen and Murphy 2004; Lanis and Richardson 2015).

Other accountability mechanisms society usually relies on to identify socially responsible firms include CSR rankings and social investment fund screens. However, investment screens often do not include considerations for income tax payments (Dowling 2014), and the inclusion of income tax payments as a criterion for CSR rankings is spotty at best. Specifically, income taxes are not considered by the *Newsweek* Green Rankings or *Barron's* 100 Most Sustainable Companies. Even when tax payment is included in a ranking system, its impact on the overall ranking is diluted. For instance, income tax payment is one of 17 key performance indicators in the *Corporate Knights* Global 100 ranking, but it is weighted at less than 2% in the overall ranking. As another example, the Dow Jones Industrial Sustainability index is based on survey responses to dozens of questions, one of which is about the firm's self-reported commitment to complying with both the letter and spirit of tax laws.

[25] Firms in Fig. 1 reporting in accordance with GRI G4 or GRI Standards that refer user to the 10-K or annual report for tax disclosure include American Express, AT&T, FedEx, General Electric, Home Depot, IBM, Pepsico, Walmart, Microsoft, Caterpillar, Coca Cola, Ford, Intel, Johnson & Johnson, JP MorganChase, Marriott, and Target. Firms that did not provide any income tax information include Kellogg, Kraft Heinz, Procter & Gamble, Visa, and Disney. Firms that aggregated both country-level and tax-type payment information include CVS, Exxon, and UPS.

In summary, anecdotal evidence suggests there are discrepant views among firms about whether they are accountable to pay income taxes in accordance with the letter of the law, which allows for aggressive tax policies, or the spirit of the law, which would disallow aggressive tax avoidance policies. However, the public reaction to media attention on aggressive tax avoidance policies suggests that stakeholders and society view firms as accountable for following the spirit of the tax laws. Yet, aggressive tax avoidance continues, and negative reputational effects are weak.

Conclusions

Considering these weak societal effects on tax aggressiveness and espoused stakeholder opinions that firms are accountable for following the spirit of the tax laws, society generally is not holding tax aggressive firms accountable. As a result of the lack of accountability mechanisms, firms likely use a cost–benefit analysis to determine what tax policies to adopt. From the tax compliance and tax disclosure perspectives, these almost always favor aggressive tax avoidance behaviors. The development and execution of tax avoidance strategies requires corporations to anticipate and evaluate risks and consequences that could arise from the implementation of an aggressive tax avoidance posture. U.S.-based multinational corporations have increasingly relied on complicated tax strategies and the use of tax havens to avoid significant tax liabilities (Sikka 2010). Prior tax rules were exploited by multinational companies to shift profits to countries that have very low corporate tax rates. Such techniques were used across many industries and firms. These tax strategies were not illegal but deprived government at various levels of a sizable amount of revenue normally dedicated to public services. Over the past decade, this deprivation has been the subject of media and tax authority investigations. The public spotlight has highlighted the aggressive tax policies of a handful of firms, but the rest have been almost completely unaffected and in contrast to the predictions of reputation theory.

Together, our empirical illustration and theoretical discussion suggest that reputation theory alone is not sufficient to explain the dynamic relations among CSR, corporate tax strategies, and corporate reporting. Therefore, we conclude that additional theoretical support is needed to help forward our understanding. Recent research on corporate celebrity and strategic silence appear to show promise in this regard. The concept of corporate celebrity (Rindova et al. 2006) may help explain the role of reputation as an accountability mechanism if "fair share" tax practices were to be considered within CSR. The concept of strategic silence (Carlos and Lewis 2018) may help explain why "fair share" tax practices are not currently considered within CSR by U.S.-based multinational firms and under what conditions "fair share" tax practices would be considered. We explore these concepts and their role in corporate reputation and accountability, specifically for tax, in the following paragraphs as a potential way forward in theorizing these relationships.

Firms who engage in tax aggressive behaviors without negative reputation effects may be celebrity firms. Celebrity at the firm level is constructed by mass media (Rindova et al. 2006). The dual role of media is to inform audiences of events and to provide coherent and comprehensive narrative accounts that explain the causes and consequences of such events. To meet these dual demands when covering firm-related events and behaviors, media must create a "dramatized reality" (Rindova et al. 2006). "Dramatized reality" describes how otherwise factually accurate information about firms is organized in ways that stress certain facts and meanings and underplay others. This collective "dramatized reality" across various media sources in turn construct firm celebrity. Prior literature has classified Apple, Alphabet (previously Google), and Starbucks as celebrity firms as a result of the media and its "dramatized reality of the firm" (e.g., Rindova et al. 2006). Apple, Alphabet (previously Google), and Starbucks are all in the sample of our empirical illustration and part of our case discussions to support our proposition of weak reputational effects for tax aggressiveness.

Celebrity status also is shaped by the actions of the firm and the actions of its peers, which could include tax aggressive behaviors. Thus, celebrity status creates path dependent and uneven effects in social evaluation and reputation for firms that engage in the same behaviors. Firm behaviors that influence social evaluations of celebrity status consist of novel or nonconforming actions (Rindova et al. 2006). Nonconforming actions can be either overconforming and underconforming actions (Rindova et al. 2006). For example, a visible market leader is the object of many media reports and is an overconforming celebrity firm (Rindova et al. 2006). As an overconforming celebrity whose frequent alignment with industry norms, its source of celebrity status gives a firm the license to engage in behaviors that stakeholders may find objectionable if such behaviors were committed by non-celebrity firms. Thus, due to its celebrity, a visible market leader is in a superior position to engage in tax aggressive behavior, which secures it in a stable celebrity position as its fellow market leaders adopt its behaviors (Rindova et al. 2006). In contrast, if a celebrity firm that is a rebel, or an underconforming celebrity firm, engages in tax aggressiveness in a way that intensifies the nonconformity behaviors, the celebrity firm further deviates from industry norms, becomes an "outlaw," and is more likely than a market leader overconforming celebrity firm to suffer negative reputational effects associated with tax aggressive behaviors.

Based on our empirical illustration, we think this suggests that celebrity firms within U.S.-based multinationals (i.e., visible, overconforming market leaders) may not be uniformly vulnerable to reputation threats associated with the use of aggressive tax strategies. For example, as the media narrative of an individual celebrity firm as an exceptional market leader incorporates other stakeholder reports of the celebrity firm's tax aggressiveness, the resulting "dramatized reality" grants the celebrity firm social license to continue to be tax aggressive in order to maintain its overconforming, market leader celebrity status. Yet, if the media narrative of the individual celebrity firm as a deviant "outlaw" that is engaging in tax aggressiveness to further deviate from industry norms, the "resulting dramatized reality" exposes the outlaw or nonconforming celebrity firm to negative reputational effects. Finally, if the tax aggressive behavior exhibited by a rebel is then imitated by its peers, its non-conforming behavior then becomes the industry norm. Thus, the self-reinforcing nature of celebrity status could also allow tax aggressive behaviors to spread and become more generally adopted.

The concept of celebrity as a proposed explanation for why firms can engage in tax aggressive behaviors without reputation threat is predicated on tax aggressiveness being a well-documented media event. However, within our context of U.S.-based multinational firms, the opacity of current tax disclosures in the U.S. make it less likely that firms' aggressive tax policies will be detected by media, social evaluators, and other stakeholders. Currently, tax disclosures have not been formally incorporated into voluntary CSR guidelines, tax disclosures required by GAAP are ambiguous, and even reformed tax rules remain opaque and complex. The fact that tax strategies are mostly hidden from the public's view (Sikka 2010) raise questions about the need for government regulators as well as CSR bodies to address corporate tax accountability for firm's tax avoidance practices and its actual tax support of broader society (Preuss 2010). Thus, at present, social evaluators, other stakeholders, and society must rely on an individual firm's beliefs about its social responsibility to motivate payment of its fair share. However, many firms do not view tax practices as a CSR issue. Even Alphabet, who in the past adopted "Don't be evil" as Google's motto for corporate conduct, does what it can to avoid paying its fair share of taxes in the countries in which it employs people and generates profits. This raises a related question: Under what societal conditions, would stakeholders and individual firms consider "fair share" tax practices to be a CSR issue?

To answer this question, we combine the concept of celebrity with the concept of strategic silence. Large U.S.-based multinational corporations operate based on institutionally stable understandings of both CSR and tax. Celebrity firms have a disproportionately large influence on other evaluators' perceptions of judgment validity (Rindova et al. 2006). The more influential these actors are, the stronger the validity cue their messages convey. Because celebrity firms prefer tax aggressive behaviors and are not vulnerable to the reputation threats of tax aggressive behaviors due to their celebrity status, their invulnerability also shapes the shared understandings of both tax and CSR.

Thus, celebrity status suppresses the understanding of tax as a CSR issue by social evaluators, other stakeholders, and society. This occurs because members of the large corporate population can "clearly fear being in the minority position vis-à-vis other insiders and, thus, must also monitor their field in order to assess the dominant opinion" (Clemente and Roulet 2015, pp. 102–103). Firms that comply with the "spirit of tax law" to engage in "fair share" tax practices are thus members of the deviant or minority position. As minority members, the firms do not want to endanger theirposition in the face of a field of celebrity firms who follow the letter of the tax law. Research suggests that minority firms who engage in "fair share" tax practices will remain silent out of fear of being labeled hypocrites (Carlos and Lewis 2018) or fear of being revealed as deviants by their peer organizations (Clemente and Roulet 2015). To illustrate this pressure to conform, Clemente and Roulet (2015) describe how a coalition of social movements introduced a ratings system for German car manufacturers, the coalition gave a negative rating to all car manufacturers except Ford Germany, the only company that negotiated with the coalition. Yet, Ford Germany ended up pleading with the coalition to give them a negative rating like their peers because "otherwise the alliance with all the others [car manufacturers] is endangered" (Guérard et al. 2013, p. 801 in Clemente and Roulet 2015, p. 103). The resulting strategic silence about tax as a CSR issue could lead firms complying with the spirit of tax law to refrain from publicizing prosocial actions, and thus, inhibit them from capturing any reputational benefit from CSR. Thus, celebrity status, coupled with the process of strategic silence, ensures that deviant understanding of "fair share" tax practices to be a CSR issue are not expressed. Because fear silences the expression of deviant opinions of "fair share" tax practices to be a CSR issue, this stable, shared understanding of tax as a *non*-CSR issue arises as the result of a self- reinforcing circle.

Yet, the suppressed judgment, or the deviant opinion of "fair share" tax practices as a CSR issue in accordance with the spirit of the law, does not disappear completely. Instead, "these suppressed judgements act like seeds in the soil" that will rise at the opportune moment (Bitektine and Haack 2015, p. 67). Thus, according to the literature on strategic silence, consideration of "fair share" tax practices as a CSR issue in accordance with the spirit of the law remains an invisible part of CSR until an opportune moment arises and a period of contestation begins on tax as a CSR issue. Therefore, the "opportune moment" for "fair share" tax practices as a CSR issue has not yet been reached amongst the stakeholders and social evaluators of firm reputation (Carlos and Lewis 2018; Bitektine and Haack 2015; Clemente and Roulet 2015; Bitektine 2011). However, this stable and shared understanding is inherently fragile since it is "inhabited" by evaluating stakeholders and peer firms who have the capacity to reassess and eventually change this social order (Hallett and Ventresca 2006; Stinchcombe 1997). Thus, the concept of strategic silence also explains when and how a new understanding of "fair share" tax practices as a CSR issue.

To conclude, research on celebrity and strategic silence suggests that a stable and shared understanding of the nature of CSR and tax exerts a powerful influence on evaluators' judgments of tax as a CSR issue. As our empirical illustration and theorization shows, the "spirit of the law" and the "letter of the law" with respect to taxes are not aligned. Because the two are not aligned, firms can engage in both tax aggressive and "fair share" tax practices. Celebrity status gives firms the social license to engage in tax aggressive behaviors, and explains the resulting variant and path dependent reputational outcomes. Strategic silence enabled by collective, peer evaluations of celebrity status and its associated tax practices ensures that deviant understandings of tax as a CSR issue are not expressed. Furthermore, we posit that only when the "spirit of the law" and the "letter of the law" are aligned can the strategic silence about tax as a CSR issue be broken. Stakeholder pressures for more transparent disclosure as well as standard setters, the media, CSR ranking services, and social investment screens who promote tax payment as a CSR issue are key factors in changing celebrity firm and non-celebrity firm perceptions of "fair share" tax practices as a CSR issue. Future experimental research might assess the influence of critical media coverage on tax avoidance on perceptions of firm behavior (e.g., attitude as a measure for reputation). This way, the influence of both celebrity as a suppressor factor and independent media effects could be isolated, instead of using broader proxies that may contain factors that dilute the relationship.

Through these mechanisms, what constitutes normative tax behavior may still vary. However, our theorization and our empirical illustration suggest that stakeholders will change their attitudes towards corporations that are tax aggressive only when provided information by media and other stakeholders and when their shared understanding of CSR includes tax practices. Then, stakeholders will be able to communicate such information to politicians and policy-makers, who then will to react to these changes. Firm efforts to increase shareholder returns through aggressive tax avoidance may become morally questionable and even investors may conclude that a firm that will cheat the government also will cheat their investors

(Huseynov and Klamm 2012). In the future, firms may be expected to have a clear policy in relation to their corporate tax behavior—meaning one which it is prepared to explain in public if necessary. If a company is not comfortable explaining its tax policy in public, it might want to reflect on whether its policy is appropriate.

A limitation of our paper is that we focus on U.S.-based multinationals. Thus, our theorization is limited to the institutional context of this particular population. However, as multinational firms have civic accountability to the public/citizens of the countries in which they operate, specifically through taxation (Christensen and Murphy 2004; Russell and Brock 2016; Payne and Raiborn 2018), we believe our paper has implications for other multinationals and their increasingly broader base of stakeholders. As such, further research is needed on not only what it means for firms to be accountable for their fair share of taxes beyond corporate tax rates but also into how stakeholders hold firms accountable for their fair share, whether through reputation or other mechanisms, including voluntary and mandatory tax disclosure, independent media investigation and public pressure, or otherwise.

More specifically, future research can focus on the role of the firm as a citizen of society, how this role has changed and the changes in the nature of and beliefs about corporate taxation in this debate. For instance, certain national contexts have very different cultural beliefs about the role of the firm and nature of corporate taxation and different institutional factors that create an independent media to communicate to society, stakeholders, and other social evaluators whether firms are engaging in tax aggressive behaviors (Kanagaretnam et al. 2016). Perhaps there are greater reputational effects for particular corporate tax behaviors in cultural contexts in which corporate taxation, or taxation more broadly, is believed to serve a different role than in the U.S. setting. Where corporations are seen as powerful citizens of society, future research can contribute to debates over firm's responsibilities to prioritize shareholders to the potential detriment of other stakeholders and the common good. For example, research might explore whether there are legitimate business reasons why a company may be making good revenues but pay lower amounts of tax and whether there are legitimacy or other consequences for firms who continue to use legal but aggressive means to reduce their tax burdens over the long term.

Such studies may also help us to understand how rules might be defined so that firms do not take advantage of them and produce unintended consequences for society. This links to our final proposal for future research which focuses on why the development of tax codes and standards has not received the same attention as the development of accounting rules. We suggest studies focused on who influences the development of tax codes and standards, how the codes and standards are implemented by firms, what type of enforcement mechanisms are in place to monitor implementation and adherence to the rules, and, ultimately, who wins and loses in their development and implementation. Overall, we encourage further investigation of the use of aggressive tax strategies to minimize tax obligations, how firms employ such strategies in consideration of worldwide tax codes and obligations, and how experts assist firms in the design and implementation of these strategies.

Incorporating tax into academic and practitioner understanding of CSR could allow a company's "fair share" to be seen as CSR and, thus, firms could gain its reputational benefits. However, will it be seen as a threat to its reputation in other ways? In this paper, we suggest that as long as multinational firms interpret that CSR is the letter of the law, multinational firms, their standard-setting bodies, and their financial stakeholders will find reason to interpret their aggressive tax strategies as achieving CSR. If corporate tax strategies become socially perceived as a reputational threat, then this may beconsidered to be a CSR issue and operate according to how our existing theories suggest. As the literature currently stands, it is uncertain. Thus, we suggest that celebrity firms, especially those prominent in media narratives and stakeholder's cognitions, seem to have the social license to navigate these gray reputational waters of CSR. If celebrity, with its path dependence and alternatively benign and harsh penalties, is the mechanism linking CSR and tax policies, this poses uncertain outcomes for multinational U.S. based firms and the country's ability to ensure their continued tax revenue base.

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